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SIPDIS

SENSITIVE

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SUBJECT: BREAKFAST WITH GUTIERREZ: ECONOMIC ISSUES

Sensitive but Unclassified.

**¶1.** (SBU) Summary: In a breakfast meeting on August 18, President Gutierrez told the Ambassador that Ecuador will resolve its business disputes with the U.S. He expressed appreciation to the U.S. for its economic assistance, stated that he had instructed Minister of Trade Ivonne Baki to work more closely with the Ecuadorian Congress on the Free Trade Negotiations, and said he supported the Carter initiative to organize a conference on the protection of the Galapagos Islands. He was conspicuous in his uncharacteristic coolness toward Minister of Economy and Finance Mauricio Yepez. End Summary.

**¶2.** (U) Ambassador and DCM breakfasted with Gutierrez on August 18 at his request. Gutierrez clearly had several issues on his mind (see septel for political discussion). With the appeal of the Occidental arbitration case in the news, he made a point of re-stating his commitment to the resolution of commercial disputes. (He did not specifically mention the Occidental case, and Occidental has requested that the Embassy not press its case with the GOE, so Ambassador did not raise it either, but his statement seemed intended to imply that the GOE would respect the outcome of the appeal.)

**¶3.** (U) Gutierrez noted the difficulties his administration has had with the Ecuadorian Congress. He stated that he has instructed Minister of Trade Baki to work more closely with Congress as negotiations progress on the FTA. Ambassador complimented this initiative, emphasizing the importance of an inclusive public and congressional relations strategy to the final approval of the FTA. Gutierrez agreed.

**¶4.** (SBU) Ambassador told Gutierrez that we continue to have an excellent relationship with Minister of Economy and Finance Mauricio Yepez, who is doing a great job. Gutierrez, was uncharacteristically and visibly cold on the subject, and made no comment.

**¶5.** (U) Gutierrez thanked Ambassador for U.S. assistance. Ambassador responded by telling him that the Department of Defense intends to increase the number of MEDRETE's for Ecuador this year, as many as 14 may take place. Ambassador asked Gutierrez what he thought of the proposal by Jimmy Carter to have the Carter Center host a conference on protection of the Galapagos. Gutierrez responded that he thought it a very good idea and would support it.

**¶6.** (SBU) Comment: This meeting was not as wide-ranging as others, probably because Gutierrez had made many of his points in the meeting with Codel Weller and the Ambassador just the evening before. We expect the notable coolness of Gutierrez to mention of Yepez may reflect tensions related to Yepez' effort to maintain budget discipline during what Gutierrez sees as a crucial political campaign (upcoming municipal elections). His statements on commercial disputes and the Galapagos confirm his continued support for important U.S. initiatives.

KENNEY